

Message Text

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TAGS: ENRG VE

SUBJ: PETROLEUM REVERSION OFFTAKE AND TECHNICAL SERVICES
CONTRACTS

1. AS WE ARE REPORTING SEPARATELY, THE OFFTAKE ARRANGEMENTS ARE STILL UP IN THE AIR. THE COMPANIES HAVE MADE THEIR OFFERS BUT IT IS NOT CLEAR HOW OR WHEN THE GOV WILL RESPOND. MINES MINISTER HERNANDEZ IS HOPING FOR SOME KIND OF ACTION AT THE OPEC MEETING IN VIENNA THAT WOULD STRENGTHEN HIS EFFORT TO OBTAIN COMMITMENTS FROM THE COMPANIES TO LIFT GREATER VOLUMES. WE GATHER HIS CHANCES OF GETTING AGREEMZSA ON PRODUCTION PRO-RATCXA OR MUCH MORE THAN THE USUAL LIP-SERVICE SUPPORT ARE NOT VERY GOOD. IN ANY CASE, MOVEMENT ON THE ISSUE BEFORE HERNANDEZ GETS BACK TO CARACAS LATE NEXT WEEM SEEMS UNLIKELY.

2. ABSENT MEANINGFUL OPEC ACTION, THE GOV MUST ACCEPT A DAMAGING REDUCTION IN OFFTAKE FOR AT LEAST THE FIRST QUARTER OF 1976 OR FIND A WAY TO ADJUST PRICES. ALBERTO QUIROZ, THE VENEZUELAN PRESIDENT OF SHELL'S SUBSIDIARY HERE, HAS POINTED OUT PUBLICLY THAT VENEZUELA IS THE ONLY OPEC MEMBER THAT EXPORTS SUBSTANTIAL QUANTITIES OF REFINERY PRODUCT AND THAT THERE IS NO OPEC BENCHMARK PRICE ON PRODUCT. HE HAS SUGGESTED THAT "FLEXIBILITY" IN DEALING WITH CUSTOMERS FOR PRODUCT IS INDICATED.

3. HOWEVER, INTERNAL POLITICAL CONSIDERATIONS AND HISTRRIC VENEZUELAN PETROLEUM DOCTRINE WILL MAKE IT DIFFICULT FOR THE GOV TO MOVE VERY MUCH IN THIS AREA. IT IS CONCEIVEABLE IN LIGHT OF THE DILEMMA THAT THE GOV WILL TEMPORZE, ALLOWING THE OFFTAKE
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PROBLEM TO HANG FIRE PAST JAN 1 IN THE HOPE THAT A CHANGE

IN MARKET CONDITIONS OR OTHER FACTORS WILL PERSUADE THE COMPANIES TO ADOPT A MORE ACCOMODATING STANCE. ALSO, IF AGREEMENTS ARE CONCLUDED BEFORE THE END OF THEYEAR THEY MAY BE ESSENTIALLY TRANSITORY IN NATURE AND SUBJECT TO CONTINUING NEGOTIATIONS. IN ANY EVENT, WE SEE A PERIOD OF CONTINUING UNCERTAINTY FOR SOME WEEKS AHEAD.

4. WHAT THE GOV AND THE COMPANIES WOULD DO ABOUT THE TECHNICAL SERVICE CONTRACTS IN THE ABSENCE OF FIRM OFFTAKE ARRANGMENTS IS NOT CLEAR. AGAIN THERE IS THE POSSIBILITY OF INTERIM UNDERSTANDINGS WITH FINAL AGREEMENTS PUT OFF UNTIL AFTER JAN 1. IN THIS SITUATION THE COMPANIES WOULD GO INTO THE POST-NATIONALIZATION ERA STILL MISSING TWO OF THE THREE LEGS OF THEIR STOOLS. A LAST-MINUTE SETTLEMENT AS IN THE IRON-INDUSTRY NATIONALZIATION IS STILL POSSIBLE AND IN THE GOV'S POLITICAL INTERSTS IF ANYTHING APPROACHING A SATISFACTORY LEVEL OF OFFTAKE CAN BE ASSURED. BUT IN THE CONTRARY CASE PRESIDENT PEREZ MIGHT DECIDE TO OBSCURE THE ISSUE SOMEWHAT BY PERMITTING NEGOTIATIONS TO DRAG ON WHILE HE DENOUNCES THE COMPANIES FOR EXERTING " PRESSURE" ON VENEZUELA.
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